

REPORT OF THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

272.2

INACCURATE METHODS OF
ESTABLISHING STAFFING NEEDS
IN THE DEPARTMENT OF MOTOR VEHICLES

DECEMBER 1976



Joint Legislative Audit Committee

OFFICE OF THE AUDITOR GENERAL

California Legislature



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December 1, 1976

The Honorable Speaker of the Assembly
The Honorable President pro Tempore of
the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the Auditor General's report on productivity measurement in the Department of Motor Vehicles.

The Auditor General finds that budgetary data provided to the elected Governor, relating to staff positions for fee collection and accounting, are different from data provided to the elected Senators of the Senate Transportation Committee. This difference amounts to 985 positions, a cost differential of \$15.7 million.

The Auditor General also finds that 136 staff-years are necessary to collect and account for motor vehicle license fees. Yet, the Department has overcharged local government 641 positions in 1974-75 and 814 positions in 1975-76 in excess of its needs. Thus, overcharges to cities and counties amount to approximately \$9 million annually.

Irresistibly, the questions that confront the legislative committee that will review this report are: (1) do the career civil service personnel in the Department lie to the elected Governor, or do they lie to the elected Legislature, or do they discriminate among elected officials, and (2) should the standing committees monitor the Departments' standards for productivity measurement?

By copy of this letter the Department is requested to advise the Joint Legislative Audit Committee within 60 days of the status of implementation of the recommendations of the Auditor General that are within the statutory authority of the Department.

The auditors are: Jerry Wentz, Rick Howard, and Walt Reno.

Respectfully submitted,

MIKE CULLEN, Chairman
Joint Legislative Audit Committee

TABLE OF CONTENTS

	<u>Page</u>
SUMMARY	i
INTRODUCTION	1
AUDIT RESULTS	
Projected department staffing needs are unreliable and have resulted in excessive costs.	3
Recommendations	9
Local government overcharged \$9 million.	10
Recommendations	13
Drivers license fees do not recover costs.	15
Recommendation	17
OTHER INFORMATION	18
WRITTEN RESPONSE TO AUDITOR GENERAL'S REPORT	
Director, Department of Motor Vehicles	19
Secretary, Business and Transportation Agency	31
APPENDIXES:	
Appendix A--Staff Positions for Fee Collection and Accounting	A-1
Appendix B--Drivers License Issuance Program Computation of Staff-Years Needed to Process Drivers License Applications	B-1

SUMMARY

The Department of Motor Vehicles' system for determining its staffing needs is deficient because: (1) needed information is not provided and conflicting staffing information is developed by, in the words of the Department, "quick and dirty" means, (2) revisions of work standards are not timely and result in excessive staff positions, and (3) the methods by which standards are set do not consider efficiency improvements.

Overcharges to cities and counties amounting to approximately \$9 million annually occur because the Department uses a 1939 formula which is no longer appropriate to determine its costs to collect the Motor Vehicle License Fee. The Legislature annually appropriates this amount from the local governments' so-called "in lieu" property tax revenue (i.e., Motor Vehicle License Fee) to reimburse the Department for its costs. This amount is deducted from revenue collection payments made to the cities and counties.

The drivers license fee has remained at \$3 since 1953, except for the \$0.25 increase approved in 1971 to provide colored photographs. The effect of this on the drivers license issuance program is that the program costs significantly exceed revenues. Over the past four years, the deficit has increased from \$6.7 million to over \$12.1 million. This deficit is absorbed by vehicle fee revenues which otherwise would be available to fund the ailing state highway program.

INTRODUCTION

In response to a resolution of the Joint Legislative Audit Committee, and under the authority of Government Code Section 10527, we have examined (1) the system used by the Department of Motor Vehicles to establish its staffing requirements, (2) the Department's procedures for charging local government for collection of Motor Vehicle License Fees, and (3) the cost to process drivers' licenses in relation to fees charged. This examination was prompted by concern that revenues collected by the Department would soon be insufficient to fund the California Highway Patrol, the Department and the other related programs which have been financed from these revenues.

The Department of Motor Vehicles is a major component of the Business and Transportation Agency and is designed to protect the public interest and promote public safety through the licensing of motor vehicles and drivers. The operations of the Department are organized into six major programs:

- Vehicle licensing and titling
- Drivers' licensing and control
- Occupational licensing and regulation
- Compulsory financial responsibility for licensed drivers
- Associated services
- Administration.

The Department is primarily responsible for licensing approximately 11 million drivers and 16 million motor vehicles. A substantial number of the activities performed by the Department are of a repetitive nature and therefore susceptible to work measurement and the establishment of work standards to determine staffing needs.

In 1968 the Department engaged a management consulting firm and increased its staff of work measurement analysts nearly threefold in order to establish work standards for the entire Department. The resulting Management Reporting and Control System (MARC) was first used to project the Department's staffing needs in the 1971-72 budget. The annual budget projects expenditures by program, which gives the appearance that the Department is organized by program. In reality, the Department is organized by operating divisions with planning, budgeting and operational controls, including the MARC activities, oriented to organizational rather than program requirements.

In 1973 during a review and audit of MARC, the management consulting firm, which had assisted the Department in developing this system, prophetically observed:

The present emphasis of the program in which standards are not maintained and Replacement Action Requests are not reviewed by MARC prior to manning action will eventually be recognized by those responsible for budget approval. If this should occur the proposed budgets may have great difficulty because it could be possible to argue that the MARC Program was permitted to slip to increase the possibility of getting a significant budget increase for the department.

AUDIT RESULTS

PROJECTED DEPARTMENT STAFFING
NEEDS ARE UNRELIABLE AND HAVE
RESULTED IN EXCESSIVE COSTS.

The Department's Management Reporting and Control System (MARC) is deficient because: (1) needed information is not provided and conflicting staffing information is developed by, in the words of the Department, "quick and dirty" means, (2) revisions of standards are not timely and result in excessive staff positions, and (3) the methods by which standards are set do not consider efficiency improvements.

Necessary Staffing Information Not Provided

Engineering work standards used to project the Department's staffing needs are established for the various functions performed by each unit of the Department. Staff positions and related costs are thereby established for internal organization units. In order to show budget information by program classification, positions and their costs are converted from organization identification to program categories. However, the information necessary to compare fee revenue to associated departmental costs is not routinely developed either through the budgetary or accounting process and was not readily available. For example, cost information recently requested by the Senate Transportation Committee for its highway finance hearings had to be independently developed by cost analysis studies.

Ascertaining the costs of the Department's services and products is a difficult and time-consuming process because of the absence of a program cost accounting system. In addition, little credence can be given to the information currently developed. This is evident from the following statements from Department internal memoranda summarizing segments of the cost information requested by the Senate Transportation Committee.

Ownership Documentation Costs

This report is the Ownership Documentation portion of the response to Senator Collier's request for cost data related to revenue and fee collection.

It should be understood that some foregoing portions of the study were "quick and dirty".

. . . .

Registration and Related Program Man-Years

On December 9, 1975, we forwarded to you our analysis of the Weight Fee Collection Costs. Subsequent to that time we have developed costs for the Registration, Service, Special Equipment and Permit Fees and Ownership Documentation. I must impress upon you the fact that these are quick and dirty studies for use as an administrative tool in dealing with emerging issues related to vehicle revenue and documentation.

. . . .

Revenue and Fee Collection

Attached are the computations for man year costs for the collection of Registration Fees, Service Fees, and Ownership Documentation.

It should be understood that the study was "quick and dirty"....

There is no indication that these internal concerns were expressed beyond the Department. However, the cost information was assembled and released even though (1) inconsistent methods were used to develop the data and (2) it was necessary to "plug" figures in order to reconcile the information developed for the Senate Transportation Committee with information routinely developed for the annual budget. To illustrate, Appendix A compares the number of staff positions budgeted for fee collection and accounting, with those identified for the same purpose in the studies prepared for the Senate. There is a difference of approximately 985 staff positions and a cost differential of \$15.7 million.

Untimely Revision of Work Standards

Modest variations in the time standards established for staff to perform repetitive activities have a major impact on the number of authorized positions. This occurs because of the large volume of routine transactions. For example, the work standard for field office counter work and typing to process a driver's license application is ten minutes. A recent study of the processing in 40 of the 147 field offices conducted by the headquarters' Operations and Management Analysis Unit but not yet implemented, revealed an average processing time of only six minutes. Independently, we verified this time. The continued use of the ten-minute standard results in the overstaffing of 158 positions, at an unnecessary annual cost of \$1.9 million. The processing time difference of four minutes translates into 158 positions because 4.6 million drivers are annually licensed. Appendix B shows this computation.

The current ten-minute standard time for field office counter work and typing for drivers' license applications was established in 1970. Since then, changes have been made in the Department's processes but the same time standard has been used to justify the authorized positions. In its 1973 review and audit of MARC, the management consulting firm which had assisted the Department in developing this system observed that "The majority of the time standards are not truly representative of the existing situation and conditions..." and cautioned that in order for the standards to be useful they had to be reviewed at least once a year.

In spite of these observations more than three years ago, the Department has continued not to review and update its work standards on a timely basis. Over 40 percent of the total staff are assigned to field offices where 60 percent of the work standards are more than two and one-half years old.

Omission of Efficiency Improvements

Department analysts are assigned to the following primary divisions within the Department: Registration, Drivers' Licensing, Administration, Compliance, Field Office and EDP Services. The analysts evaluate only work processes of the organizational units in which they are employed; this does not facilitate relating their work to processes which involve more than one organizational unit. The identification of inefficiencies including duplication of processes by different units is impeded because of a "tunnel vision" approach. During our review we

observed evidence of duplication of activities in cashiering control, document processing control, proofreading, preparation of correspondence and document filing.

Department analysts share our concern that workload volume and time standards are "padded" to justify staffing, and that delays are experienced in implementing new standards which evidence overstaffing. Thus, action is still pending on the 158 positions identified as being excessive.

Corrective Action

The Department is mindful that reliable cost information is not being developed. A 1975 internal task force recognized the difficulties of ascertaining the costs of the Department's services and products, and recommended exploring the feasibility of restructuring the work standards so that they would measure "product" costs ("product" meaning, for example, driver's license issuance). This determination can be made internally. However, the latter two deficiencies (i.e., untimely revisions of work standards and the omission of efficiency improvements) can be more effectively resolved externally, since no incentive to do so exists internally.

The organizational placement of the work standards analysts within the department they review reduces the independence and objectivity of this important activity. Only by assigning the individual analysts

directly to the divisions they review could their independence and objectivity be further reduced. Conversely, by transferring this function to the Business and Transportation Agency, independence and objectivity would be increased. The Agency, which is primarily responsible for the decisions regarding trade-offs in the competition for the limited available resources would be better equipped to fulfill this responsibility.

The conditions which fostered the Senate Transportation Committee's request for cost information was the projection that a principal source of highway finance (i.e., the excess of the Department's revenue collections over non-highway transportation cost) would soon be exhausted. This problem can be mitigated only by (1) increasing the Department's revenues, (2) reducing the non-highway transportation services provided by the Department, the Highway Patrol and the Air Resources Board, or (3) increasing staff productivity. Highway users would be adversely affected by the first two actions, but not by the last which appears more desirable. A primary objective of the establishment of work standards is to improve productivity, but the present organizational placement of this function provides the least possible assurance that highway users will benefit from the cost of this activity.

CONCLUSION

The problem that "quick and dirty" costs and staffing studies are performed because MARC does not routinely provide needed information can be resolved within the

Department. However, the failures to revise work standards on a timely basis and the omissions of efficiency improvements can be most effectively remedied by transferring the work standards activities to the Business and Transportation Agency.

RECOMMENDATIONS

The Department should restructure work standards to realistic levels so that excess staff may be eliminated.

The Legislature, through appropriation action, should transfer the work standards activities to the Business and Transportation Agency so that more objective standards may be established and implemented.

BENEFIT

Improving the objectivity and independence of the work standards activities would improve the decisions regarding resource allocations.

LOCAL GOVERNMENT OVERCHARGED \$9 MILLION.

Overcharges to cities and counties amounting to approximately \$9 million annually occurs because the Department uses a 1939 formula which is no longer appropriate to determine its costs to collect the Motor Vehicle License Fee. The Legislature annually appropriates this amount from the local governments' so-called "in lieu" property tax revenue (i.e., Motor Vehicle License Fee) to reimburse the Department for its costs. This amount is deducted from revenue collection payments made to the cities and counties.

In 1970 we recommended that the method used to determine the reimbursement to the Department for its collection costs be revised because the cities and counties were being charged a disproportionately high part of the Department's collection and accounting costs. Two alternatives were proposed: (1) analyze procedures to identify and segregate the activities and their costs related to the state revenues from activities and costs of the local government revenues or (2) allocate the costs on the basis of the amounts of revenues collected. The Department agreed with this recommendation both at that time and again in 1975; however, no action has been taken and the amount is still determined based on the 1939 formula. As a consequence, local governments have been charged \$9 million annually in excess of actual costs relating to collecting and accounting for motor vehicle license fees.

Following is a comparison of the 1975-76 distribution of
(1) the gross fees collected and (2) the Department's costs of collecting
and accounting for these fees.

	Sharing of Costs and Revenue			
	Vehicle		Collection and	
	Fees Collected		Accounting Costs	
	Amount in Millions	Percent	Amount in Millions	Percent
State	\$376	50	\$ 3	19
Cities and Counties	<u>376</u>	<u>50</u>	<u>15</u>	<u>81</u>
Total	<u>\$752</u>	<u>100</u>	<u>\$18</u>	<u>100</u>

The revenues are equal but the cities and counties pay 81 percent of the costs.

The Department experienced difficulty in responding to the Senate Transportation Committee's request for cost information, in part, because the number of positions assigned to the Motor Vehicle License Fee collection and accounting activity was "forced" to agree with the 1939 formula computation rather than reporting the actual positions performing these activities. We independently determined the staff-years needed to collect and account for the Motor Vehicle License Fees. The following table compares the number of staff-years the Department assigned to fee collection and accounting and the number of staff-years actually needed based on our study. The approach taken in our study was to determine which positions would no longer be needed if the Motor Vehicle License Fee was not collected by the Department.

Motor Vehicle License Fee
Comparison of Staff-Years Allocated
With Staff-Years Needed for Fee Collection

Division	Department Allocation of Staff-Years		Auditor General's Evaluation of Staff-Years Needed	Excess Staff-Years	
	<u>1974-75 Actual</u>	<u>1975-76 Estimated</u>		<u>1974-75 Actual</u>	<u>1975-76 Estimated</u>
Administration	85.5	104.7	5.0	80.5	99.7
Registration	229.8	267.1	73.9	155.9	193.2
Field Office	302.5	376.6	30.1	272.4	346.5
EDP Services	84.2	103.4	3.0	81.2	100.4
Compliance	<u>74.9</u>	<u>98.0</u>	<u>23.8</u>	<u>51.1</u>	<u>74.2</u>
Total	<u>776.9</u>	<u>949.8</u>	<u>135.8</u>	<u>641.1</u>	<u>814.0</u>

Our analysis shows that approximately 136 staff-years are needed to collect and account for the Motor Vehicle License Fees, but the Department has allocated over 700 staff-years to this activity. The Department has, in effect, charged the local governments with 641 positions for 1974-75 and 814 positions for 1975-76 in excess of its needs to collect and account for the Motor Vehicle License Fee revenue. The difference between the amounts reported to the Legislature and the amounts which would be required, if actual positions needed were considered, is approximately \$9 million annually. This difference includes proportional amounts for operating costs in addition to salaries.

More than five years have elapsed since the Department's concurrence with our 1970 recommendations, yet no action has been taken. We conclude that the Revenue and Taxation Code should be amended to specify how the

reimbursement of Department costs appropriated by the Legislature is to be determined. We believe that allocation of costs on the basis of the proportional amounts of revenue collected is equitable for the State and local governments. Section 11003 of the Revenue and Taxation Code would be amended by the addition of the second sentence to read as follows:

The amount appropriated by the Legislature for the use of the Department of Motor Vehicles for the enforcement of this part shall be transferred from the Motor Vehicle License Fee Account in the Transportation Tax Fund to the Motor Vehicle Account in the State Transportation Fund. The amount shall be determined so that the proportions of costs of vehicle fee collection and accounting are the same as the proportions of total vehicle fees accruing to the State and to the cities and counties.

CONCLUSION

Local governments are charged approximately \$9 million annually in excess of the costs that can be related to the activities of collecting and accounting for the Motor Vehicle License Fees.

RECOMMENDATIONS

The Legislature should amend the Revenue and Taxation Code to identify the method of computing the charge to cities and counties to recover the Department's cost of collecting and accounting the Motor Vehicle License Fee.

The Department should abolish the positions that are found to be unnecessary to collect the Motor Vehicle License Fee.

BENEFIT

An equitable distribution of the costs between the state and local governments would result.

DRIVERS LICENSE FEES
DO NOT RECOVER COSTS.

The drivers license fee has remained at \$3 since 1953, except for the \$0.25 increase approved in 1971 to provide colored photographs. The effect of this on the drivers license issuance program is shown in the following table, which shows that the program costs exceed revenues. The deficits continue to increase each year.

	Drivers License Issuance Program Revenues and Expenditures			
	<u>1972-73</u>	<u>1973-74</u>	<u>1974-75</u>	<u>1975-76</u>
Drivers License Fees Collected	\$13,312,147	\$14,206,602	\$14,379,723	\$14,720,453
Expenditures	<u>20,086,706</u>	<u>21,062,464</u>	<u>25,078,413</u>	<u>26,888,210</u>
Deficit	<u>\$(6,774,559)</u>	<u>\$(6,855,862)</u>	<u>\$(10,698,690)</u>	<u>\$(12,167,757)</u>
Staff Years	1,471.4	1,457.2	1,468.2	1,549.4

Program costs have increased 34 percent over the past four years, but fees collected have increased only 11 percent. The number of staff-years charged to the drivers license issuance program has increased five percent in the same period of time.

The current deficit of \$12.1 million for the driver's license issuance program is absorbed by vehicle fee revenues such as registration fees, weight fees, and miscellaneous revenues, which otherwise would be available to fund the ailing state highway program.

The Director of the Department has recommended that the drivers license and identification card fee structure be increased to cover the costs of these programs. This is the fee structure recommended by the Director:

Drivers Licenses:

Original fee	\$10
Renewals	5
Duplicates	5
Exchanges	5

Identification Cards:

Original	\$ 3
Duplicates	2

The Department estimated that these fees would have provided an increase in revenue of \$12,443,300 for fiscal year 1975-76, which is close to the deficit of that year.

The first section of this report describes overstaffing of approximately \$1.9 million annually in the field offices for the drivers' license activities. We did not find a similar condition in headquarters' operations. Therefore, if the above fee schedule is adopted and the 158 excessive positions which we have identified are eliminated, the result should be a surplus approximately equal to the value of the positions eliminated. This will allow the drivers' license activity to be self-supporting at least until inflation absorbs the surplus. Further, the transfer of the work standards analysts to the Business and Transportation Agency should foster staff productivity improvements so that the proposed fees should further enable the drivers' license program to be self-supporting.

CONCLUSION

No adjustment in drivers license fees to compensate for inflation has been made in more than two decades. As a consequence, the drivers license issuance program is experiencing annual losses of \$12 million which otherwise would be available to aid in funding the State Highway Program.

RECOMMENDATION

The Legislature should adjust drivers' license and related fees so that the program is self-supporting. The Department should abolish the positions that are found to be unnecessary for the drivers license issuance program.

BENEFIT

Fees collected by the Department would be used for their intended purpose. Vehicle fee revenues of approximately \$12 million would be available for transfer to the ailing state highway program, and the drivers license issuance program would be self-supporting.

OTHER INFORMATION

In response to the Governor's budget message of January 1975, the Director of the Department of Motor Vehicles undertook a short-term study to evaluate the effectiveness of all department programs. In August 1975, a program evaluation task force was established within the Department. Instructions to the task force were to identify specific areas where efficiency and effectiveness could be increased.


On October 10, 1975 the task force presented a report to the Director containing some 45 recommendations for further study. The task force identified that potential savings of over \$8 million would result from 22 of the recommendations. Potential savings for the remaining 23 recommendations were not quantified but were estimated to be substantial.

A significant task force recommendation highlighted the cashiering procedures. The Department collected over \$737 million in revenue in fiscal year 1974-75. Handwritten receipts are prepared for each transaction. The task force recommended that the Department "automate revenue collection and accounting". Savings in the field offices is estimated to be 138 staff-years or approximately \$1.4 million. There would be additional savings in staff-years in the accounting and the central control sections at headquarters.

November 30, 1976

Staff: Jerry Wentz
Rick Howard
Walt Reno

Respectfully submitted,


John H. Williams
Auditor General

OFFICE OF THE DIRECTOR

DEPARTMENT OF MOTOR VEHICLES

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November 30, 1976

Mr. John H. Williams
Auditor General
Joint Legislative Audit Committee
Office of the Auditor General
925 L Street, Suite 750
Sacramento, CA 95814

Dear Mr. Williams:

On Wednesday, November 24, 1976, Mr. Jerry Wentz of your staff delivered copies of his draft report on three Department of Motor Vehicles' programs and procedures to this office.

The three subjects covered by the report were:

1. The system used by DMV to establish its staffing requirements;
2. The Department's procedures for charging local government for collection of Motor Vehicle License Fees; and
3. The cost to process drivers' licenses in relation to fees charged.

Mr. Wentz requested that this department respond to the issues raised in the report by today, three working days following its delivery to me.

Following is a preliminary response to the draft report. A full response, including a detailed departmental evaluation of the information presented, will be forwarded to you no later than December 23, 1976. In the interim, Ralph Cook, DMV's Chief of Administration, will be contacting your staff for clarification on how certain conclusions were reached relating to some of the DMV operational processes and costs which were cited.

Initially, let me point out that the Department of Motor Vehicles licenses 13.5 million drivers, not the 11 million referred to in the introduction.

Concerning the conclusions reached by Mr. Wentz, this department can provide you with the following immediate information:

1. The system used by DMV to establish its staffing requirements.

The draft study concludes: "Projected department

staffing needs are unreliable and have resulted in excessive costs."

As we informed your staff several months ago, the Management Reporting and Control System (MARC) used to project DMV's staffing needs has proven to be a tool of little value to this department in recent years. Revisions of engineered work standards were not kept current; many, in fact, had not been revised since 1969. During the last fiscal year, we initiated several actions to make the standards accurate and current, including increasing the size of the MARC staff and making the updating of standards its foremost priority. We also hired an outside consultant, Mr. Douglas Towne, to review the MARC system and to make recommendations for improving the reporting system and the maintenance of the standards.

While DMV budget projections have historically been based on MARC standards, actual staffing practices have been based on genuine need. That a discrepancy exists is evidenced in part by the fact that this department returned \$4,855,576 in unused budgeted funds to the Motor Vehicle Account in fiscal year 1974-75 and \$7,824,135 in unused budgeted funds to the Account in fiscal year 1975-76. In fiscal 1975-76, it did not use 338 personnel-years of the total 7,544 personnel-years which were budgeted for its operation.

We project that all departmental MARC standards will be current by March 1, 1977. (The present status of the updating is attached as Exhibit A.) After that date, we should be able to use the MARC system most effectively to project our staffing needs accurately.

Given the current condition of the MARC standards, the department has taken the position for fiscal year 1977-78, that it will not rely on those standards for its projected personnel needs. Barring new legislatively-mandated programs, the department's budgeted personnel-years for fiscal year 1977-78 will not increase over its 1976-77 personnel-years, in spite of a projected greater workload. During the past and present fiscal years, we have established strong position action controls, even to the extent of hiring freezes in our Drivers Licensing and Registration Divisions, to help make this possible.

Your analyst's statement that DMV's MARC-projected staffing needs have been unreliable is, if anything, an understatement. His statement that they have resulted in excessive costs is not substantiated by any facts which I found in his report or of which I am otherwise aware. The report appears to confuse real expenses with MARC work processing projections.

Our actual staffing as well as other practices of this department are based on demonstrated need, not on projected positions which are budgeted a year or more in advance, or on other projected expenses. It is for this reason that the department has been able to return the unprecedented amount of \$12,679,711 in budgeted but unused funds to the Motor Vehicle Account during the past two fiscal years.

The figures cited and compared on page 5 and Appendix A leading to a conclusion that 985 staff positions are not properly accounted for are based on assumptions which appear erroneous. A quick glance at the figures in Appendix A shows at least two errors: in the first table, use tax (208.6 staff years) and air pollution control (130.6 staff years) figures are included in the total of 1842.6 staff years. The 857.4 staff years indicated in the table on page A-2 do not include the use tax computation and collection figure of 133.4 staff years which is a separate line item (item D). The air pollution control figure shown in the first table is not a program for which we collect fees.

The report's author recommends that the function of reviewing departmental work standards be bucked "upstairs" to the Business and Transportation Agency. If inviting an ongoing outside review of work standards were a good management practice (which I seriously question), then the author is recommending an ineffectual half-step. Why not assign the responsibility to a unit completely outside of the Agency, or outside of the state bureaucracy itself? It is, in my opinion, the department's own responsibility to objectively set and maintain its work standards. As I brought in an outside consultant to review them and the entire MARC program this past fiscal year, my intention is to continue this practice in the future on a biennial basis.

2. The Department's procedures for charging local government for collection of Motor Vehicle Fees.

The draft report states that local governments are "charged" approximately \$9 million annually in excess of the costs that can be related to the activities of collecting and accounting for the Motor Vehicle License Fee. It then recommends that the Legislature amend the Revenue and Taxation Code to identify the method of computing the charge to cities and counties to recover the department's cost of collecting and accounting the Motor Vehicle License Fee.

The current basis for computing the costs of collecting "in lieu" taxes for cities and counties is a formula

developed as a result of a lengthy study made jointly by the Department of Finance and the Department of Motor Vehicles in 1939. An updated version of this formula is currently used for determining the administrative cost of collecting the Motor Vehicle License Fee Account revenue for the purpose of budget appropriation. Attached as "Exhibit B" is the calculation made for fiscal year 1976-77.

In the past, the Auditor General has recommended that a revision be made in the method of determining the amount of funds to be transferred from the Motor Vehicle License Fee Account for local government use.

The Department of Finance has also recommended that this subject be restudied; however, its recommendation was made in 1967 and the reason for the recommendation was that it appeared the cities and counties may not have been paying their fair share of the actual cost of administering the "in lieu" tax collection by the Department of Motor Vehicles. This department heartily agrees that a study should be made to determine the proper basis for allocating funds to the cities and counties. We believe that this study is not a simple one and that the Department of Finance should be responsible for conducting it. We do not know the current views of the Department of Finance as to whether or not the cities or counties are being overcharged or undercharged for the administration of the collection of the "in lieu" tax.

The answer depends in great part on what kinds of administrative costs should be shared equally by local government with the State, and which should be considered "add-on" costs, with the State assuming the major administrative cost burden.

This same recommendation was made by the Auditor General in 1971. Our comments at that time were:

"The Auditor General's report implies that the local governments are overcharged by the department for the collection of vehicle license fees. This is contrary to a previous Department of Finance suggestion that the formula be reviewed because it appears that local governments might not be paying their fair share of the actual cost.

"The department would welcome a cost analysis of its fee collection programs. Current procedures could be analyzed to determine the cost of activities related to state revenues and those related to local government revenues."

We again would support such a cost analysis.

3. The cost to process drivers' licenses in relation to fees charged.

The report states that driver license fees do not recover costs. This is certainly true.

There is no question that the cost of issuing drivers licenses is not offset by the charge to applicants. However, I believe a basic question needs to be considered before fees are increased. Should the total cost of the driver licensing program be borne by the licensees or by all citizens? If the driver licensing program is contributing to safety on the streets and highways of California, doesn't every passenger in a vehicle and every pedestrian gain by this program? Obviously, the fee could be raised on each drivers license to make this program self-supporting, but is the amount of the required fee justified as a charge solely against the drivers license applicant?

In California today, the piece of paper called a "drivers license" serves many purposes. It is used more as a document of personal identification than as proof of an individual's competency and privilege to drive. That the licensing process includes taking the applicant's photograph, and in the great majority of cases, his or her thumbprint, is a response to the needs of the commercial community and law enforcement. A person may, during his or her entire lifetime, never have to produce the license to verify his or her privilege to drive. But the same person probably uses it several times a week to establish his or her identity while transacting personal business. Therefore, should merchants also bear part of the cost for issuing this document?

The department presently has a study underway to determine if revisions in its fee structure would be in the best public interest. A report is due to the Legislature by April 1, 1977.

4. Other information.

The report draft comments on a DMV task force recommendation to automate revenue collection and accounting, projecting annual field office savings of \$1.4 million following certain initial equipment and training costs. The draft indicates support for such a step. The department has established a task force to determine costs and benefits of automating cashiering, and anticipates completion of a final report by December 31, 1977.

I appreciate your sharing your draft report with the department.

We will be pleased to work with you in pursuing any and all recommendations which you feel will permit us to function more efficiently.

Sincerely,

A handwritten signature in cursive script, reading "Charles A. Eich". The signature is fluid and extends to the right.

for HERMAN SILLAS
Director

Attachments

	NUMBER OF UP-TO-DATE VARIABLE STANDARDS						BUDGETED MAN YEARS COVERED BY UP-TO-DATE VARIABLE STANDARDS					
	9/1/76	Last Month	Cumulative Total	3/1/77 Goal [*]	Percent Completed		9/1/76	Last Month	Cumulative Total	3/1/77 Goal	Percent Completed	
<u>DEPARTMENTAL</u>												
<u>RECAP</u>												
Compliance	103	0	103	173	59.5%		260.0	0	260.0	307.5	84.6%	
Registration	666	25	691	768	90.0%		790.0	50.8	840.8	1084.3	77.5%	
EDP (25)	101	0	101	111	91.0%		370.9	0	370.9	403.0	90.9%	
Drivers License	129	18	147	617	23.8%		275.4	44.7	320.1	1317.9	24.3%	
Administration	135	0	135	235	57.4%		102.1	0	102.1	197.2	51.8%	
Executive	25	0	25	25	100.0%		9.0	0	9.0	9.0	100.0%	
Field Office	45	1	46	83	55.4%		1502.4	13.3	1515.7	3015.8	50.3%	
TOTAL	1204	44	1248	2012	62.0%		3309.8	103.8	3418.6	6339.7	53.9%	

* Totals will fluctuate monthly as old standards are combined or new standards added.

<u>DEPARTMENTAL</u> <u>RECAP</u> Page 2	BUDGETED PERSONNEL ON VARIABLE STANDARDS			BUDGETED PERSONNEL ON CONSTANT STANDARDS		
	9/1/76	Last Month	Cumulative Total	9/1/76	Last Month	Cumulative Total
Compliance	307.5	0	307.5	105.4	0	105.4
Registration	1082.2	2.1	1084.3	114.2	0	114.2
EDP (26)	408	0	408	350.6	0	350.6
Drivers License	1317.9	0	1317.9	138.3	0	138.3
Administration	197.2	0	197.2	101.5	0	101.5
Executive	9.0	0	9.0	126.4	0	126.4
Field Office	3015.8	0	3015.8	64.3	0	64.3
Total	6337.6	2.1	6339.7 *	1000.7	0	1000.7 *

* These figures are derived from our first projections for the revised 76/77 budget and will be revised by November 25, 1976 to reflect all post entity adjustments.

DEPARTMENTAL RECAP

Division	Sub- Divisions	Budgeted Personnel on Actual Hr. Stds.	Budgeted Personnel on Variable Stds.	Variable Stds. in Division	Total up-to-date Variable Stds.	% of work measured by up-to-date Variable Stds.
Compliance	3	105.4	307.5	173	103	84.6
Registration	7	114.2	1082.2	790	670	73.0
EDP	3	350.6	408.0	111	101	90.9
Drivers License	6	138.3	1317.9	609	133	22.0
Administration	4	101.5	197.2	235	135	51.8
Executive	0	126.4	9.0	25	25	100.0
Field Office	5	64.3	3015.8	82	45	50.2
Department Total		1000.7	6337.6	2025.0	1212.0	52.6

DEPARTMENT OF MOTOR VEHICLES
1976-77 SUPPORT BUDGET
TRANSPORTATION TAX FUND - MOTOR VEHICLE LICENSE FEE ACCOUNT
SCHEDULE SHOWING COMPUTATION OF APPROPRIATION FOR 1976-77 F.Y.

EXHIBIT B

PERSONAL SERVICES:

DEPARTMENTAL ADMINISTRATION:

Total, Personal Services	\$ 6,455,554
Less: Office of Director	-184,888
Fiscal & Business Management - Administrative	
Service Fees	-11,751
Undocumented	
Vessel Reg.	-56,151
ELP Reg. & Fee	
Collection	-14,727
Off Hwy. Vehicles	-3,181
Estimated Reimbursements	-53,616
Non VLF Functions (32.50%)	<u>-1,992,653</u>

Sub-Total, Departmental Administration: \$ 4,138,587

DIVISION OF REGISTRATION:

Total, Personal Services	\$15,418,526
Less: Undocumented Vessel Reg.	-411,990
ELP Reg. & Fee Collection	-320,272
Off Hwy. Vehicles	-592,396
Estimated Reimbursements	<u>-1,155,793</u>

Sub-Total, Division of Registration: \$12,938,075

DIVISION OF FIELD OFFICE OPERATION:

Total, Personal Services	\$39,873,245
Less: Undocumented Vessel	-255,927
ELP Reg. & Fee Collection	-152,764
Off Hwy. Vehicles	-427,881
Estimated Reimbursements	-1,699,986
Non VLF Functions (38.81%)	<u>-14,490,368</u>

Sub-Total, Division of Field Office Operation \$22,846,319

DIVISION OF EDP SERVICE:

Total, Personal Services	\$10,364,177
Less: Undocumented Vessel	-125,204
ELP Reg & Fee Collection	-74,352
Off Hwy. Vehicles	-86,415
Non VLF Functions (68.72%)	<u>-6,925,743</u>

Sub-Total, Division of EDP Service: \$3,152,463

DIVISION OF COMPLIANCE:

Total, Personal Services	\$7,534,160
Less: Non VLF Functions (4.31%)	<u>-324,722</u>

Sub-Total, Division of Compliance \$7,209,438

TOTAL, PERSONAL SERVICES - MOTOR VEHICLES

\$50,284,882

PERCENTAGE APPLICABLE FOR MOTOR VEHICLE LICENSE FEE

24%

TOTAL, PERSONAL SERVICE - MVLF ACCOUNT

\$12,068,372

OPERATING EXPENSES AND EQUIPMENT:

Administration	\$550,566
Registration	399,815
Field Office Operation	344,512
EDP Service	225,458
Compliance	183,277
Land & Building	1,869,448
Equipment	<u>141,775</u>

TOTAL, OPERATING EXPENSES AND EQUIPMENT

\$3,714,851

TOTAL, 1976-77 F.Y. MOTOR VEHICLE LICENSE FEE ACCOUNT

\$15,783,223

DEPARTMENT OF MOTOR VEHICLES
1976-77 SUPPORT BUDGET
TRANSPORTATION TAX FUND-- MOTOR VEHICLE LICENSE FEE ACCOUNT
SCHEDULE SHOWING COMPUTATION OF APPROPRIATION FOR 1976-77 F.Y.

	DETAIL	AMOUNT	PERCENTAGE CHARGEABLE TO THE MVLF ACCT.	MVLF ACCOUNT AMOUNT
OPERATING EXPENSES & EQUIPMENT:				
DEPARTMENTAL ADMINISTRATION:				
Printing (DL Summaries trfrd to Dr. Lic.)		(\$3,931,127)		
Other Operating Expenses		274,970	17%	\$ 46,745
Less: ELP	\$3,656,157			
Off-Highway	-24,739			
	-32,694	3,598,724	14%	503,821
Sub-Total, Departmental Administration				\$550,566
DIVISION OF REGISTRATION:				
Printing		(\$8,392,258)		
Postage		1,242,820	17%	\$ 211,279
Other Operating Expenses		2,723,665	5%	136,183
Less: Lic. Plates & Tabs (All Types)	\$4,425,773			
ELP	-3,592,053			
Vessel Registration	-106,238			
Off-Highway	-220,391			
Bicycle Indicia	-127,882			
	-52,000	327,209	16%	52,353
Sub-Total, Division of Registration				\$399,815
DIVISION OF FIELD OFFICE OPERATION:				
Printing		(\$2,923,171)		
Postage		29,995	17%	\$ 5,099
Other Operating Expenses		1,022,250	5%	51,113
Less: ELP	\$1,870,926			
Off-Highway	-46,362			
	-22,690	1,801,874	16%	288,300
Sub-Total, Division of Field Office Operation				\$344,512
DIVISION OF EDP SERVICE				
Printing		(\$4,298,091)		
Postage		123,020	17%	\$ 20,913
Other Operating Expenses		300	5%	15
Less: ELP	\$4,174,771			
Vessel EDP Rental	-21,622			
Off-Highway	-34,000			
Non-MVLF (68.72% x \$4,086,669)	-32,480			
	-2,808,359	1,278,310	16%	204,530
Sub-Total, Division of EDP Service				\$225,458
DIVISION OF COMPLIANCE				
Printing		(\$1,202,673)		
Postage		52,520	17%	\$ 8,928
Other Operating Expenses		83,805	5%	4,190
Less: License Plate Tab	\$1,066,348			
	-2,856	1,063,492	16%	170,159
Sub-Total, Division of Compliance				\$183,277
LAND AND BUILDING:				
Less: Estimated Reimbursements	\$6,271,094			
	-39,600	6,231,494	30%	\$1,869,448
EQUIPMENT:				
Administration	\$609,982			
Registration	261,082			
Field Office Operation	272,298			
EDP Service	4,459			
Compliance	141,039	\$1,288,860	11%	\$141,775
TOTALS, 1976-77 F.Y.--MOTOR VEHICLE LICENSE FEE ACCOUNT OPERATING EXPENSES AND EQUIPMENT				\$3,714,851

76-77 Budget Act

— 51 —

Ch. 320

Item	Amount
(i) Amount payable from the State Bicycle License and Registration Fund (Item 215)	-78,437
(j) Amount payable from the Harbors and Watercraft Revolving Fund (Item 216)	-1,037,863
provided, that any surplus accumulated from the service and transfer fee portion of the program established pursuant to Chapter 1816 of the Statutes of 1971 shall be continuously appropriated to the Off-Highway Vehicle Fund.	
212—For payment of deficiencies in appropriations for the Department of Motor Vehicles which may be authorized by the Director of Finance, with the consent of the Governor, pursuant to Section 11006 of the Government Code, the sum of \$500,000, or so much thereof as may be necessary, is appropriated from the Motor Vehicle Account, State Transportation Fund	(500,000)
213—For support of Department of Motor Vehicles, payable from the Motor Vehicle License Fee Account, Transportation Tax Fund	15,783,223
to be transferred to the Motor Vehicle Account, State Transportation Fund, in augmentation of Item 211 of this act, as provided by Section 11003 of the Revenue and Taxation Code.	
214—For support of Department of Motor Vehicles, payable from the California Environmental Protection Program Fund	880,745
to be transferred to the Motor Vehicle Account, State Transportation Fund, in augmentation of Item 211 of this act, as provided by Section 39071 of the Health and Safety Code.	
215—For support of Department of Motor Vehicles, payable from the State Bicycle License and Registration Fund	78,437
to be transferred to the Motor Vehicle Account, State Transportation Fund, in augmentation of Item 211 of this act, as provided by Section 39001 of the Vehicle Code.	
216—For support of Department of Motor Vehicles, the sum of \$1,037,863 is appropriated from the Harbors and Watercraft Revolving Fund	(1,037,863)
to be transferred to the Motor Vehicle Account, State Transportation Fund, in augmentation of Item 211 of this act, for undocumented vessel registration and fee collection.	

37 2 540 271



BUSINESS AND TRANSPORTATION AGENCY

OFFICE OF THE SECRETARY

1120 N STREET, P.O. BOX 1139
SACRAMENTO, CALIFORNIA 95805 (916) 445-1331

November 30, 1976

Mr. John H. Williams
Auditor General
Joint Legislative Audit Committee
Office of the Auditor General
925 L Street, Suite 750
Sacramento, CA 95814

Dear Mr. Williams:

Thank you for this opportunity to comment on your report on the Department of Motor Vehicles. We must note that the depth of our comments directly reflects the amount of time given to review the report. A more precise evaluation will of necessity have to follow further careful review and discussion with the Department, the Agency and the Legislature.

We do not dispute your evaluation of the basis for projecting the Department's staffing needs. As a matter of fact, our own conclusion as to the lack of reliability of the present standard is reflected in our reduction in the Department's budget both for this fiscal year and the 77-78 fiscal year in the "work load" area. We concur in your conclusion that more reliable cost information is both desirable and necessary. We do not concur, however, in your recommendation that this task be assigned to a staff function at the Agency level. This we believe to be inconsistent with the non-operational character of the Agency and with the concept that the Director, appointed by the Governor, is fully responsible for the operations of the Department. We could, however, see the cost information activity being functionally severed from the day-to-day activities of the Department's programs and attached directly to and being directly responsible to the Director. This we understand has, in fact, been accomplished.

We accept your recommendation that the method of computing the charges to cities and counties for the Department's various fee collection activities should be updated. We see insufficient support, however, of your calculation of the "overcharge" and of the merits of simply allocating such costs based on the amounts

Mr. John H. Williams

-2-

November 30, 1976

of revenue collected. This review process will naturally take time, and we look forward to working with the Department of Finance and the Legislature to accomplish it.

We appreciate having your evaluation of the revenues and expenditures in the Department's driver's license and other fee activities. We are fully aware of the disparities in this area. The Department is preparing a report on driver's license and other fees which is due to the Legislature April 1, 1977. Should the Legislature consider an adjustment of the fee structure necessary, we will include your evaluation in the Administration's consideration of the legislative proposal.

Sincerely,

A handwritten signature in dark ink, appearing to read "Donald E. Burns", written in a cursive style.

DONALD E. BURNS
Secretary

STAFF POSITIONS FOR FEE
COLLECTION AND ACCOUNTING

In order to respond to the Senate Transportation Committee, the Department conducted cost analysis studies. This was necessary because the Department does not have an accounting system which develops cost information by program. Rather, costs are converted from conventional organizational budget classifications to program categories by means of the cost allocation method sanctioned by the State Administrative Manual. However, the information to segregate the costs of specific activities, such as fee collection and accounting by types of revenue, is not provided and requires extensive computations.

The following table shows the number of staff-years the Department determined by its cost studies and reported to the Senate Transportation Committee as being necessary to collect and account for fees.

Department of Motor Vehicles
Staff-Years Needed for
Fee Collection and Accounting

<u>Fees</u>	<u>Staff-Years</u>	
	<u>1974-75</u>	<u>1975-76</u>
Weight fee	28.5	28.5
Registration fee	670.1	702.4
Vehicle license fee ^{1/}	776.9	949.8
Use tax ^{2/}	208.6	224.5
Service fee	8.6	8.4
Special equipment fee	--	--
Permit fee	19.3	20.3
Air pollution control ^{3/}	<u>130.6</u>	<u>147.2</u>
Total Staff-Years	<u>1,842.6</u>	<u>2,081.1</u>

^{1/} Allocation based on the 1939 formula developed jointly by the Department and the Department of Finance.

^{2/} Allocation has been disputed by the Department of Finance and the Board of Equalization as being excessive. The Department of Motor Vehicles reduced the use tax staff-year allocation of 208.6 for fiscal year 1974-75 to 133.4 staff-years. The 75.2 excess staff-years were reallocated to the vehicle registration and titling program costs.

^{3/} Department analyst does not consider this allocation to be accurate.

The 1,843 staff-years determined as needed during 1974-75 to collect and account for fees exceed by 985 the staff-years provided in the budget; for 1975-76 the excess is 1,072 staff-years (Item F minus B in table below). The problem is that the staff-years shown above for Motor Vehicle License Fee, use tax and air pollution control are unsupportable and in excess of actual manpower needs. The following table relates the budgeted positions to the above total staff-years developed by the cost analysis studies.

Department of Motor Vehicles
Comparison of Budgeted Positions with
Staff-Years Allocated to
Fee Collection and Accounting

<u>Program Budget Items</u>	<u>Budgeted Staff-Years</u>	
	<u>1974-75</u>	<u>1975-76</u>
A. Vehicle Ownership, Registration Documentation and Certificate Issuance	1,638.2	1,851.2
B. Vehicle Fee Collection and Accounting	857.4	1,009.2
C. Vehicle Record and File Maintenance	359.8	396.9
D. Use Tax Computation and Collection	<u>133.4</u>	<u>141.5</u>
E. Program Total as Budgeted	2,988.8	3,398.8
Less:		
F. Staff-Years Identified for Vehicle Fee Collection and Accounting by Special Cost Studies (see prior page)	<u>1,842.6</u>	<u>2,081.1</u>
G. Staff-Years Not Identified with Fee Item Products	<u>1,146.2</u>	<u>1,317.7</u>

To reconcile staff-years developed in the cost studies with the budgeted positions, the Department assigned the unidentified staff-years to "ownership documentation". The ownership documentation figures could not be verified and included overstaffing according to a Department work measurement analyst. The Department analyst acknowledged that the figures for ownership documentation were "plugged" to reconcile to the budget total.

Drivers License Issuance Program
Computation of Staff-Years Needed
To Process Drivers License Applications

	<u>Staff-Year Needs Determination</u>		
	<u>Department</u>	<u>Auditor General</u>	<u>Difference</u>
A. Total processing time per item to perform all functions at both headquarters and field office operations (minutes) ^{1/}	16.997	12.662	4.335
B. Volume of drivers licenses processed during the 12 months ended March 31, 1976	4,568,197	4,568,197	
C. Total time to perform processing functions (minutes)	77,645,644	57,842,510	19,803,133
D. Conversion factor: minutes to staff-years ^{2/}	125,280	125,280	125,280
E. Staff-years to perform processing functions (C ÷ D)	<u>620</u>	<u>462</u>	<u>158</u>

^{1/} The time described on page 5 refers only to the field office part of the combined field office and headquarters processing time.

^{2/} 2,088 annual staff-hours times 60 minutes equals 125,280 minutes per staff-year.

Office of the Auditor General

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
California State Department Heads
Capitol Press Corps